



BILLING CODE 8011-01p

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-92755; File No. SR-BOX-2021-18]

Self-Regulatory Organizations; BOX Exchange LLC; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Amend IM-7240-1

August 25, 2021

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”),¹ and Rule 19b-4 thereunder,² notice is hereby given that on August 13, 2021, BOX Exchange LLC (the “Exchange”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change as described in Items I and II below, which Items have been prepared by the self-regulatory organization. The Commission is publishing this notice to solicit comments on the proposed rule from interested persons.

I. Self-Regulatory Organization's Statement of the Terms of Substance of the Proposed Rule Change

The Exchange proposes to amend IM-7240-1. The text of the proposed rule change is available from the principal office of the Exchange, at the Commission’s Public Reference Room and also on the Exchange’s Internet website at <http://boxoptions.com>.

II. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

In its filing with the Commission, the self-regulatory organization included statements concerning the purpose of, and basis for, the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The self-regulatory organization has prepared summaries, set forth in Sections A, B, and C below, of the most significant aspects of such statements.

A. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

1. Purpose

The purpose of the proposed rule change is to amend IM-7240-1. In May 2018, the Securities and Exchange Commission (“SEC”) noticed for immediate effectiveness BOX’s filing to adopt protections for Complex Orders.³ As background, the Exchange implemented its Debit/Credit Check which helps prevent the execution of Complex Orders at erroneous prices.⁴ Specifically, the system will reject a Complex Limit Order for a credit strategy with a net debit price or a Complex Limit Order for a debit strategy with a net credit price. The Debit/Credit Check mechanism is designed to value strategies using options pricing theory. At its simplest, options pricing theory refers to estimating the fair value of an options contract. Pricing models take into account variables such as current market price, strike price, and time to expiration. All else equal, longer-dated options are more valuable because of their greater time to expiration. Additionally, holding everything constant, including expiration date, a put option with a higher strike

³ See Securities Exchange Release No. 34-83163 (May 3, 2018), 83 FR 21320 (May 9, 2018) (SR-BOX-2018-13 Noticed for Immediate Effectiveness).

⁴ IM-7240-1(a).

price will be more valuable than a put option with a lower strike price because the higher strike price allows the holder to sell the underlying security at a higher price. Conversely, a call option with a lower strike price is more expensive than a call option with a higher strike price because the lower strike price allows the holder to buy the underlying security at a lower price. Taking these principles into account, the Exchange designed the Debit/Credit Check as a way to identify strategies as credit or debit and only accept appropriate prices based on that determination.

The Exchange notes that it included text in its Debit/Credit Check rule that does not completely reflect how the price protection mechanism functions.⁵ In particular, IM-7240-1(a)(1) provides that “the trading system will attempt to identify a strategy as a debit or credit based on the potential profit or loss of the Complex Order. The system first groups the legs of a Complex Order by expiration date. The system then calculates the potential profit or loss of each group for a range of price levels of the underlying security. Specifically, the system calculates the profit or loss for each group at price levels equal to the strike price of each leg in the group.” As such, the rule as it is currently reads, suggests that the system only calculates the profit or loss for each group of price levels equal to the strike price of each leg in the group for a particular strategy.

Through internal review, the Exchange came to the conclusion that the system’s Debit/Credit Check does not only utilize price levels equal to the strike price of each leg in the groups of a Complex Order, but instead employs a broader range of prices for the underlying security to make a more accurate determination as to whether a particular strategy is a debit or credit. As such, the Exchange is proposing to delete the following

⁵ BOX IM-7240-1(a) Debit/Credit Check.

language from the rule text: “Specifically, the system calculates the profit or loss for each group at price levels equal to the strike price of each leg in the group.” The Exchange believes this removes the contradiction within its current rule text and accurately reflects the current operation of its Debit/Credit Check mechanism by stating that the system will calculate a debit or credit strategy by using a “range of price levels.”

The following example illustrates the situation that the Exchange is remedying with this proposed rule change.

Example

Assume a Complex Order to buy 2 JAN 2990 puts and sell 1 JAN 3000 put. Evaluating the strategy at only the strike prices (i.e., 2990 and 3000) would yield a result that the strategy is a credit strategy and therefore the system should not accept net debit prices. This is because if the underlying security had a price of 2990 or 3000 the potential profit or loss for the strategy would be:

- When the price of the underlying security is 2990, the first leg (buy 2 JAN 2990 puts) would yield an estimated profit or loss of \$0 (i.e., break-even) and the second leg (sell 1 JAN 3000 put) would yield an estimated loss of \$10.
- Alternatively, when the price of the underlying security is 3000, the first leg would yield an estimated profit or loss of \$0, and the second leg would yield an estimated profit or loss of \$0.

If the system only evaluated underlying prices equal to the strike prices, then the profit or loss for the group would be break-even or loss because when the underlying price is 2990 the strategy has a potential loss of \$10 and when the underlying price is 3000, the

potential profit or loss is break-even. Therefore, the system would consider the strategy a credit strategy and reject any net debit prices.⁶ However, when you consider a wider range of prices for the underlying security, specifically those that are less than 2990 you conclude that the strategy has a tendency to be a debit strategy when the underlying price is less than 2990 and, in turn, net debit prices should be accepted for the strategy. As such, the strategy is neither a credit nor debit strategy and any price should be accepted.⁷ To illustrate this, using an underlying price of 2970, the system would evaluate the strategy as follows:

- The first leg would yield an estimated profit of \$40, and the second leg would yield an estimated loss of \$30.
- This would yield a net profit of \$10 for the strategy meaning it is a debit strategy at this underlying price.⁸

This means that that depending on the underlying security price the strategy may be a credit or debit strategy so the system should accept credit and debit prices for the strategy.

2. Statutory Basis

The Exchange believes that the proposal is consistent with the requirements of Section 6(b) of the Act,⁹ in general, and Section 6(b)(5) of the Act,¹⁰ in particular, the Exchange believes that the proposed rule change will remove impediments to and perfect

⁶ See IM-7240-1(a)(1)(ii).

⁷ See IM-7240-1(a)(4).

⁸ See IM-7240-1(a)(1)(i).

⁹ 15 U.S.C. 78f(b).

¹⁰ 15 U.S.C. 78f(b)(5).

the mechanisms of a free and open market by clarifying the operation of the Debit/Credit Check for Complex Orders, which would assist Participants in calibrating their systems with the Exchange's, and thereby enable Participants to make full use of the price protection mechanisms offered by the Exchange. The Exchange believes this proposal removes a potential impediment to, and would contribute to perfecting, the mechanism for a free and open market and a national market system, and, in general, would protect investors and the public interest.

The Exchange believes that the proposed rule change would remove impediments to and perfect the mechanism of a free and open market and a national market system by ensuring that market participants can understand the Exchange's rulebook. The Exchange believes that the proposed rule change enables the Exchange to continue to enforce the Exchange's rules. The Exchange does not believe that the proposed change discussed herein alters the application of any rules, or how the trading system currently functions. The proposed change merely clarifies the operation of the Debit/Credit Check for Complex Orders. As such, the proposed rule change will foster cooperation and coordination with persons engaged in facilitating transactions in securities and would remove impediments to and perfect the mechanism of a free and open market and a national exchange system. Further, the Exchange believes that, by ensuring the rulebook accurately reflects the operation of the Exchange's rules, the proposed rule change reduces potential investor or market participant confusion.

B. Self-Regulatory Organization's Statement on Burden on Competition

The Exchange does not believe that the proposed rule change will impose any burden on competition not necessary or appropriate in furtherance of the purposes of the

Act. In this regard and as indicated above, the Exchange notes that the proposed changes will not alter the substance or application of any of the Exchange's rules. Therefore, the proposed change will have no impact on competition as it is not designed to address any competitive issues but rather is designed to make clarifying changes to the existing BOX rules.

C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

The Exchange has neither solicited nor received comments on the proposed rule change.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

The Exchange has filed the proposed rule change pursuant to Section 19(b)(3)(A)(iii) of the Act¹¹ and Rule 19b-4(f)(6) thereunder.¹² Because the proposed rule change does not: (i) significantly affect the protection of investors or the public interest; (ii) impose any significant burden on competition; and (iii) become operative prior to 30 days from the date on which it was filed, or such shorter time as the Commission may designate, if consistent with the protection of investors and the public interest, the proposed rule change has become effective pursuant to Section 19(b)(3)(A) of the Act¹³ and Rule 19b-4(f)(6)(iii) thereunder.¹⁴

¹¹ 15 U.S.C. 78s(b)(3)(A)(iii).

¹² 17 CFR 240.19b-4(f)(6).

¹³ 15 U.S.C. 78s(b)(3)(A).

¹⁴ 17 CFR 240.19b-4(f)(6). In addition, Rule 19b-4(f)(6)(iii) requires the Exchange to give the Commission written notice of the Exchange's intent to file the proposed rule change, along with a brief description and text of the proposed rule change, at least five business days prior to the date of filing of the proposed rule

A proposed rule change filed under Rule 19b-4(f)(6)¹⁵ normally does not become operative prior to 30 days after the date of the filing. However, pursuant to Rule 19b-4(f)(6)(iii),¹⁶ the Commission may designate a shorter time if such action is consistent with the protection of investors and the public interest. The Exchange has asked the Commission to waive the 30-day operative delay so that the proposal may become operative immediately upon filing. The Exchange believes the proposed rule change adds clarity to the Exchange's rulebook. The Commission believes that waiver of the 30-day operative delay is consistent with the protection of investors and the public interest because the proposal revises BOX's rules to more accurately describe the operation of the Debit/Credit Check for Complex Orders, which should help investors understand how BOX's Debit/Credit Check will apply to their orders. Accordingly, the Commission hereby waives the 30-day operative delay and designates the proposal operative upon filing.¹⁷

At any time within 60 days of the filing of this proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act. If the

change, or such shorter time as designated by the Commission. The Exchange has satisfied this requirement.

¹⁵ 17 CFR 240.19b-4(f)(6).

¹⁶ 17 CFR 240.19b-4(f)(6)(iii).

¹⁷ For purposed only of waiving the 30-day operative delay, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

Commission takes such action, the Commission will institute proceedings to determine whether the proposed rule change should be approved or disapproved.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

Electronic Comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-BOX-2021-18 on the subject line.

Paper Comments:

- Send paper comments in triplicate to Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-BOX-2021-18. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet website (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for

website viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549, on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of the filing also will be available for inspection and copying at the principal office of the Exchange. All comments received will be posted without change. Persons submitting comments are cautioned that we do not redact or edit personal identifying information from comment submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-BOX-2021-18, and should be submitted on or before **[INSERT DATE 21 DAYS AFTER DATE OF PUBLICATION IN THE FEDERAL REGISTER]**.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.¹⁸

Jill M. Peterson,

Assistant Secretary.

[FR Doc. 2021-18677 Filed: 8/30/2021 8:45 am; Publication Date: 8/31/2021]

¹⁸ 17 CFR 200.30-3(a)(12).